MARKET CONDUCT EXAMINATION REPORT
AS OF DECEMBER 31, 2002

CUNA Mutual Insurance Society
5910 Mineral Point Road
Madison, WI 54205

NAIC Group Code: 306
NAIC Company Code: 62626
Colorado Company No.: 116

EXAMINATION PERFORMED
for the
STATE OF COLORADO
DEPARTMENT OF REGULATORY AGENCIES
DIVISION OF INSURANCE

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CUNA Mutual Insurance Society
5910 Mineral Point Road
Madison, WI 53701

MARKET CONDUCT EXAMINATION REPORT as of December 31, 2002

Examination Performed by

Stephen E. King, CIE
Jo-Anne G. Fameree, FLMI, AIRC, ACS

Independent Market Conduct Examiners

October 9, 2003

The Honorable Doug Dean
Commissioner of Insurance
State of Colorado
1560 Broadway, Suite 850
Denver, Colorado 80202

Commissioner:

A market conduct examination of CUNA Mutual Insurance Society was conducted in accordance with and pursuant to §§10-1-203 and 10-3-1106, Colorado Revised Statutes. This examination focused on the Company's credit disability and credit life insurance business, involving a review of underwriting, rating, policyholder service, marketing, sales and claims practices. The Company's records were examined at their offices located at 5910 Mineral Point Road Madison, WI 53701.

The time period covered by the examination was from January 1, 2002 through December 31, 2002.

The results of the examination herein, are respectfully submitted.

Stephen E. King, CIE

Jo-Anne G. Fameree, FLMI, AIRC, ACS

MARKET CONDUCT
EXAMINATION REPORT
OF
CUNA MUTUAL INSURANCE SOCIETY

TABLE OF CONTENTS

COMPANY PROFILE

CUNA Mutual Insurance Society ("CUNA Mutual" or the "Company") was formed in 1935 and today operates in several countries. CUNA Mutual is a mutual life company that offers credit life, and credit disability, to credit unions and their members. The Company was licensed and began operations in Colorado on December 11, 1953. CUNA Mutual is authorized to write Accident & Health, Annuities, Credit (Life, A&H), and Variable Contracts in Colorado. The Company is part of CUNA Mutual Group, which consists of CUNA Mutual and CUNA Mutual Life Insurance Company along with subsidiary and affiliated companies.

The Company, either directly or through a wholly owned subsidiary, possesses ownership in the companies listed below. Each of the companies operates as a separate corporation under its own articles of incorporation and bylaws:

> CUNA Mutual Investment Corporation - a wholly owned subsidiary of CUNA Mutual - is a holding company that owns all of the stock in CUMIS Insurance Society, Inc., MEMBERS Life Insurance Company, CUNA Mutual Insurance Agency, Inc., CUNA Mutual General Agency of Texas, Inc., International Commons, Incorporated, CUNA Brokerage Services, Inc., Stewart Associates Incorporated, CUNA Mutual Mortgage Corporation, and CUNA Mutual Business Services, Inc. It owns 50% or less of the stock in CMG Mortgage Assurance Company, CMG Mortgage Insurance Company, CMG Mortgage Reinsurance Company, MEMBERS Capital Advisors, Inc., MEMBERS Development Company LLC, Credit Union Service Corporation, CU Interchange Group, Inc., and HR Value Group, LLC. It also acts as owner for real estate and other types of property held for investment.

COMPANY OPERATIONS AND MANAGEMENT

CUNA Mutual Insurance Society is licensed and does business in all fifty (50), states as well as in the District of Columbia and Puerto Rico. The Company exclusively offers credit life and disability, health and variable life products to credit unions and their members.

For the year 2002, the Company reported $2,137,000 in direct written premium for its credit life insurance business, which represents a 9.76% market share of the credit life insurance business in Colorado. For the year 2002, the Company also reported $3,036,000 in direct written premium for its credit disability business, which represents an 11.22% market share of the credit disability business in Colorado.

PURPOSE AND SCOPE OF EXAMINATION

Independent Examiners, contracting with the Colorado Division of Insurance (DOI), in accordance with Colorado Insurance Law, §§ 10-1-201, 10-1-203 and 10-1-204.C.R.S., which allows the Commissioner the discretion and authority to schedule and conduct examinations for the purpose of auditing business practices of insurers, reviewed certain business practices of CUNA Mutual Insurance Society. The findings in this report, including all work products developed in the production of this report, are the sole property of the Colorado Division of Insurance.

The purpose of the examination was to determine the Company's compliance with Colorado insurance law and generally accepted operating principles related to credit insurance. Examination information contained in this report should serve only these purposes. The conclusions and findings of this examination are public record. The preceding statements are not intended to limit or restrict the distribution of this report.

Examiners conducted the examination in accordance with procedures developed by the Colorado Division of Insurance, based on model procedures developed by the National Association of Insurance Commissioners. Examiners have relied primarily on records and materials maintained by the Company. The market conduct examination covered the period from January 1, 2002, through December 31, 2002.

The examination included review of the following:

Company Operations / Management
Marketing and Sales
Producers
Underwriting - Forms / Policyholder Services
Underwriting - Rating
Underwriting - Applications
Underwriting - Cancellations
Claims

This examination report is a report written by exception. References to any practices, procedures or files, that contained no improprieties, were omitted. Therefore, the majority of the material reviewed may not be addressed in this report. In the course of the review, Examiners provided the Company Examination Memorandums and Comment Forms to obtain information, ask questions and address noted discrepancies. The Comment Form contains a section that allows the Company to provide a written response to the examiners' questions/comments.

An error tolerance level of plus or minus ten dollars ($10.00) was allowed in most cases where monetary values were involved. However, in cases where monetary values were generated by computer or other systemic methodology, a zero ($0) tolerance level was applied in order to identify possible system errors. Additionally, a zero ($0) tolerance level was applied in instances where there appeared to be a consistent pattern of deviation from the Company's established policies, procedures, rules and/or guidelines.

When sampling was involved, a minimum error tolerance level of five percent (5%) was established to determine reportable exceptions. However, if an issue appeared to be systemic, or when due to the sampling process it was not feasible to establish an exception percentage, a minimum error tolerance percentage was not utilized. Also, if more than one sample was reviewed in a particular area of the examination (e.g. timeliness of claims payment), and if one or more of the samples yielded an exception rate of five percent (5%) or more, the results of any other samples with exception percentages less than five percent (5%) were also included.

Examination findings may result in administrative action by the Division of Insurance. During the course of the examination, all unacceptable or non-complying practices of the Company may not have been discovered. Failure to identify specific Company practices, however, does not constitute acceptance of such practices. This report should not be construed to either endorse or discredit any life insurance company or product.

EXAMINERS' METHODOLOGY

In accordance with § 10-1-203, Colorado Revised Statutes, examiners reviewed the Company's business practices to determine compliance with Colorado insurance laws and regulations, as they pertain to life insurance companies, as shown in the following exhibit.

Exhibit 1

Law/Regulation	Concerning
Section 10-1-108	Duties of Commissioner – reports – publications – fees – disposition of funds - adoption of rules.
Section 10-1-109	Rules and regulations of commissioner
Section 10-1-111	Grounds and procedure for suspension or revocation of certificate or license of entities.
Section 10-1-127(6)(a)	Anti-fraud Plan
Section 10-2-1001 through 10-2-1101	Managing General Agent Act
Section 10-2-103	Licenses - General Provisions - Definitions
Section 10-2-401 through 10-2-417	Licenses – Licensing and Appointment of Insurance Producers
Section 10-2-701 through 10-2-704	Licenses – Business Conduct of Licensees
Section 10-3-105	Certificate of Authority
Section 10-3-109	Reports, statements, assessments, and maintenance of records - publication - penalties for late filing, late payment, or failure to maintain.
Section 10-3-1101 through 10-3-1104	Unfair Competition – Deceptive Practices
Section 10-7-112	Interest payable on benefits or proceeds
Section 10-10-101 through 10-10-119	Credit Insurance
Regulation 1-1-7	Market Conduct Record Retention
Regulation 1-1-8	Penalties And Timelines Concerning Division Inquiries And Document Requests
Regulation 1-2-9	Fees Charged by Agents/Brokers
Regulation 2-1-7	Concerning Issuance of a Certificate of Authority
Regulation 4-9-2	Credit Insurance
Regulation 6-2-1	Complaint Record Maintenance

Company Operations / Management

Examiners verified the Certificate of Authority and reviewed Company management and administrative controls, and record retention. Additionally, the Company's cooperation during the course of the examination was noted.

Marketing and Sales

Examiners reviewed all of the Company's marketing and sales material used in the State of Colorado during the examination period. These materials were reviewed to verify compliance with the Colorado insurance laws and to determine if the Company accurately represented their products. The total population of sixty-six (66) marketing and sales pieces were reviewed.

Producers

Examiners verified producer records to ensure producers soliciting business in the state of Colorado were properly licensed.

Underwriting – Forms / Policyholder Services

Examiners reviewed all forms provided by the Company, during the course of the examination, to determine compliance with Colorado insurance laws.

Underwriting - Rating

Examiners systematically selected a sample of fifty (50) new business single premium files from a combined life and disability population of 561 files. These files were reviewed to ensure proper handling and verify that the Company's filed rates were properly and consistently applied.

Examiners selected 100 level rate new business files for review. As a result of the Company's decentralized method of file maintenance and lack of level rate certificate-holder information, the 100 level rate files were selected utilizing the following methodology. Examiners randomly selected ten (10) credit unions from a population of 118 credit unions that had written level rate business during the examination period. Examiners selected ten (10) credit life files, from each of five (5) credit unions and ten (10) credit disability files from each of five (5) credit unions. The total population of life and disability level rate business in the State of Colorado was 54, 361, as of 12/31/2002.

Underwriting – Cancellations

Examiners systematically selected a sample of fifty (50) cancelled credit life and credit disability files, from a combined population of 1,315. Examiners reviewed these files to ensure accurate and timely processing of the premium refund.

Claims

Examiners systematically selected a sample of fifty (50) paid credit disability claims, from a population of 1,426 and a sample of fifty (50) paid credit life claims, from a population of 132. In addition, Examiners selected a sample of fifty (50) denied credit disability claims from a population of 197 and all eleven (11) denied credit life claims. Examiners reviewed the Company's claims handling guidelines and claim information, to determine timeliness of processing and accuracy of payment.

EXAMINATION REPORT SUMMARY

The examination resulted in a total of seven (7) findings in which the Company did not appear to be in compliance with Colorado Statutes and Regulations. The following summarizes Examiner findings.

Company Operations / Management: In the area of Company Operations / Management, Examiners identified three (3) areas of concern in their review of the Company's operations and management. Examiners identified the following issues:

- Failing to file a complete annual report of all policy forms in use.
- Certifying and/or using non-compliant forms.
- Failing, in some cases, to maintain records required for market conduct purposes.

Marketing and Sales: In the area of marketing and sales, no compliance issues or concerns were identified and thus are not addressed in this report.

Producers: In the area of producers, no compliance issues or concerns were identified and thus are not addressed in this report.

Underwriting – Forms / Policyholder Services: Examiners found two (2) areas of concern in their review of forms. Examiners identified the following issues:

- Failing to use fraud warning language that is "substantially the same" as the fraud warning language required by Colorado insurance law.
- Using certificate language that contradicts the language required to be included in the policy with regard to Excess Benefits.

Underwriting – Rating: In the area of rating, no compliance issues or concerns were identified and thus are not addressed in this report.

Underwriting – Cancellations: In the area of cancellation refunds, no compliance issues or concerns were identified and thus are not addressed in this report.

Claims: Examiners found two (2) areas of concern in their review of paid and denied claims. Examiners identified the following issues:

- Failing, in some cases, to accurately apply interest to benefits.
- Failing, in some cases, to forward excess benefits to debtor or his/her estate.

Results of previous Market Conduct Exams are available on the Colorado Division of Insurance's website at www.dora.state.co.us/insurance or by contacting the Colorado Division of Insurance.

A copy of the Company's response, if applicable, can be obtained by contacting the Company or the Colorado Division of Insurance.

MARKET CONDUCT EXAMINATION REPORT

FACTUAL FINDINGS

CUNA MUTUAL INSURANCE SOCIETY

OPERATIONS AND MANAGEMENT FINDINGS

Issue A1: Failing to file a complete annual report of all policy forms in use.

Amended Regulation 4-9-2 Credit Insurance, which was promulgated under the authority of §§10-1-109, 10-10-109(2.5)(c) and 10-10-114 C.R.S., states in part:

> "**Section 11. Policy Forms and Related Material**
>
> A. Filing Requirements
>
> 2. No later than July 1 of each year, each credit insurer must file an annual report of all policy forms in use including a fully executed certificate of compliance."

The Annual Forms Report and Certification filed by the Company in July 2002, failed to report the use of Form B3b-800-0786 by the Company.

Based on the above information, it appears that the Company failed to comply with the requirement to file an annual report of *all* policy forms in use in Colorado for the 2002 reporting period.

Recommendation No. 1:

Within thirty (30) days, the Company should provide documentation demonstrating why it should not be considered in violation of Regulation 4-9-2. In the event the Company is unable to show such proof; it should provide evidence to the Division of Insurance that it has taken appropriate steps to ensure future compliance with Colorado insurance law.

Issue A2: Certifying and/or using non-compliant forms.

Section 10-3-1104, C.R.S., Unfair methods of competition and unfair or deceptive acts or practices states in part:

> (1) The following are defined as unfair methods of competition and unfair or deceptive acts or practices in the business of insurance:
>
> (aa) Certifying pursuant to section 10-10-109 (3) or 10-10-109 (4), issuing, soliciting, or using a credit insurance policy form, certificate of insurance, notice of proposed insurance, application for insurance, endorsement, or rider that does not comply with Colorado law. Such certification, issuance, solicitation, or use shall be subject to the sanctions described in sections 10-3-1107, 10-3-1108, and 10-3-1109.

In June 2002, the Company filed a certification with the Division of Insurance that the policy forms identified on the Listing of New Policy Forms and/or Annual Report filed with the certification were in full compliance with all relevant Colorado insurance laws and regulations.

By signing the Certificate of Compliance, the Company officer is attesting to the fact that he/she has read and understands all of the legal requirements for credit insurance in Colorado, and that the forms certified are in full compliance with the requirements in effect on the date of the certification.

It appears that in some cases, the Company's forms were not in compliance with the requirements of Colorado insurance law as noted in Issues E1 and E2; therefore, the Certificate of Compliance received by the Colorado Division of Insurance in June 2002, did not meet the requirements of Colorado insurance law.

Recommendation No. 2:

Within thirty (30) days, the Company should provide documentation demonstrating why it should not be considered in violation of Section10-3-1104, C.R.S. In the event the Company is unable to show such proof; it should provide evidence to the Division of Insurance that it has taken appropriate steps to ensure future compliance with Colorado insurance law.

Issue A3: Failing to maintain records required for market conduct purposes.

Regulation 1-1-7, (repealed and repromulgated June 3, 2003), Market Conduct Record Retention, states in part:

Section 4. Records Required For Market Conduct Purposes

A. Every entity subject to the Market Conduct process shall maintain its books, records, documents and other business records in a manner so that the following practices of the entity subject to the Market Conduct process may be readily ascertained during market conduct examinations, including but not limited to, company operations and management, policyholder services, claim's practices, rating, underwriting, marketing, complaint/grievance handling, producer licensing records, and additionally for health insurers/carriers or related entities: network adequacy, utilization review, quality assessment and improvement, and provider credentialing. Records for this regulation regarding market conduct purposes shall be maintained for the current calendar year plus two prior calendar years.

B. Each producer of record, if the carrier does not maintain, shall maintain records for each policy sold, and the records shall contain all work papers and written communications in the producer's possession pertaining to the documented

Section 5. Policy Records

A. The following records shall be maintained: A policy record shall be maintained for each policy issued. Policy records shall be maintained so as to show clearly the policy period, basis for rating and any imposition of additional exclusions from or exceptions to coverage. If a policy is terminated, either by the insurer or the policyholder, documentation supporting the termination and account records indicating a return of premiums, if any, shall also be maintained. Policy records need not be segregated from the policy records of other states so long as the records are readily available to market conduct examiners as required under this regulation.

B. Policy records shall include at least the following:

(1) The actual, completed application for each contract, where applicable;

(a) The application shall bear the signature, either written or digitally authenticated, where required, of the applicant whenever the insurer intends to retain any right to contest any warranty, representation or condition contained in the application; or

(a) The application shall bear a clearly legible means by which an examiner can identify a producer involved in the transaction. The examiners shall be provided with any information needed to determine the identity of the producer;

(2) Any declaration pages (the initial page and any subsequent pages), the insurance contract, any certificates evidencing coverage under a group contract, any endorsements or riders associated with a policy, any termination notices, and any written or electronic correspondence to or from the insured pertaining to the coverage. A separate copy of the record need not be maintained in the individual policy to which the record pertains, provided it is clear from the insurer's other records or systems that the record applies to a particular policy and that any data contained in the record relating to that policy, as well as the actual policy, can be retrieved or recreated;

The Company was unable to provide a comprehensive listing of the "level rate" block of business for the examination period. The Company does not maintain any specific information regarding certificate holders on their level rate business. The Company could not "consolidate" information from the credit unions, without a significant amount of time (both Company and credit union) and expense. The Company however was able to provide Examiners a listing that showed total numbers of certificate-holders, by credit union. This list contained no certificate-holder names, numbers, coverage type(s), or other identifying information.

Single Premium Credit Life and Disability New Business

Population	Sample Size	Number of Exceptions	Percentage to Sample
561	50	4	8%

The file review revealed exceptions in four (4) files, representing 8% of the sample. The following provides an explanation of the findings.

The Company does not maintain copies of applications/enrollment forms. The applications/enrollment forms are received from the credit unions and retained for approximately three (3) months. During this three (3) month "reconciliation process", an electronic file is coded and the Company resolves any noted errors. The applications/enrollment forms are then destroyed. The credit union, however, retains a copy of the credit insurance application/enrollment form.

In four (4) instances, the Company was not able to produce applications.

Level Rate Credit Life and Disability Rating

Population	Sample Size	Number of Exceptions	Percentage to Sample
54,361	100	20	20%

This sample revealed exceptions concerning twenty (20) files, representing 20% of the sample. The following provides an explanation.

The Company was asked to provide 100 "level rate" files for review. Basically, the selection of the 100 files involved selecting ten (10) certificate-holder files, from each of ten (10) credit unions. The Company does not maintain any specific file information, in terms of certificate-holder names, certificate numbers, coverage type(s), or other identifying information. The "level rate" file information is maintained solely by the credit unions. The Company was unable to provide twenty (20) "level rate" files during the course of the examination.

Based on the information above, it appears that the Company failed to maintain the records in accordance with Regulation 1-1-7, as outlined above and therefore is not in compliance with the stated regulation.

Recommendation No. 3:

Within thirty (30) days, the Company should provide documentation demonstrating why it should not be considered in violation of Regulation 1-1-7. In the event the Company is unable to show such proof; it should provide evidence to the Division of Insurance that it has taken appropriate steps to ensure future compliance with Colorado insurance law.

UNDERWRITING – FORMS / POLICYHOLDER SERVICES FINDINGS

Issue E1: Failing to use fraud warning language that is "substantially the same" as the fraud warning language required by Colorado insurance law.

Section 10-1-127(7)(a) C.R.S. Fraudulent insurance acts – immunity for furnishing information relating to suspected insurance fraud – legislative declaration, states:

> On and after January 1, 1997, each insurance company shall provide on all printed applications for insurance, or on all insurance policies, or on all claim forms provided and required by an insurance company, or required by law, whether printed or electronically transmitted, a statement, in conspicuous nature, permanently affixed to the application, insurance policy, or claim form substantially the same as the following:
>
> > "It is unlawful to knowingly provide false, incomplete, or misleading facts or information to an insurance company for the purpose of defrauding or attempting to defraud the company. Penalties may include imprisonment, fines, denial of insurance, and civil damages. Any insurance company or agent of an insurance company who knowingly provides false, incomplete, or misleading facts or information to a policyholder or claimant for the purpose of defrauding or attempting to defraud the policyholder or claimant with regard to a settlement or award payable from insurance proceeds shall be reported to the Colorado division of insurance within the department of regulatory agencies."

The Company utilizes the following fraud warning language application forms: APP.834-1196 CO, APP.835-0597HQ CO-1 and APP.835-1196 CO.

> "Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance containing any materially false information or conceals, for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime"

Claim Report Forms: 1229-CD-1P(R4/99), 1229-CD-1 DM(R/500), and 1229-DC 2F(R/500) and Claims Notice 1229-CD 15B(R/500) all contain the following fraud warning language.

> "Notice - Any person who knowingly and with intent to injure, defraud or deceive any insurance company submits a statement of claim containing any false, incomplete or misleading information is guilty of a crime and in some states subject to criminal or civil penalties or guilty of a felony."

The fraud warning language used by the Company (referenced above) does not appear to be "substantially the same" as the fraud warning language required by Colorado insurance law.

Recommendation No. 4:

Within thirty (30) days, the Company should provide documentation demonstrating why it should not be considered in violation of Section 10-1-127, C.R.S. In the event the Company is unable to show such proof; the Company should provide evidence to the Division of Insurance that it has revised the fraud warning language on all forms requiring such warning to ensure compliance with Colorado insurance law.

Issue E2: Using policy language that contradicts Colorado insurance law regarding language that is required to be included in group certificates with regard to Excess Benefits.

Section 10-10-108 C.R.S. Provisions of policies and certificates of insurance - disclosure to debtors, states in part:

(1) *Each* individual policy or *group certificate* of credit insurance *shall*, in addition to other requirements of law, *set forth* [emphases added]:

(d)…and it shall state that the benefits shall be paid to the creditor to reduce or extinguish the unpaid indebtedness and, wherever the amount of insurance exceeds the unpaid indebtedness, that any such excess shall be payable to a beneficiary*, other than the creditor* [emphasis added], named by the debtor or to his estate.

Amended Regulation 4-9-2 Credit Insurance, which was promulgated under the authority of §§10-1-109, 10-10-109(2.5)(c) and 10-10-114 C.R.S., states in part:

Section 10. Claims

A. Responsibility of the Insurer

Section 10-10-108 (2)(d), C.R.S., requires that the policy or certificate "state that the benefits shall be paid to the creditor to reduce or extinguish the unpaid indebtedness, ... that any such excess shall be payable to a beneficiary*, other than the creditor* [emphasis added], named by the debtor or to his estate." Proper payment of the entire claim is the contractual responsibility of the insurer *and the simple act of forwarding a check for the entire claim to the creditor cannot relieve the insurer of this responsibility* [emphasis added] where excess fund exist."

The Company's Policy Form B3a-800-0786 MP along with Endorsement forms END.JTCDMP.1196 CO and END.JTCDSP.1196.CO each contain the following language:

"Any Benefits under this Policy will be paid to you as soon as we receive proof of disability. You will apply benefits to reduce or pay off the loan or loans for which payment is made. You will pay any excess benefits to the insured member if he is living or to the beneficiary named by him, if any or to his estate. Our payment will completely discharge our liability to the extent of the payment."

Additionally, Policy Form B3a-800-0786 MP contains the following language:

"Any death benefits under this Policy will be paid to you once we receive written proof of the death of the insured member. You will apply the benefits to reduce or pay off the loans for which payment is made. You will pay any excess benefits to the

beneficiary named by him or to his estate. Our payment will completely discharge our liability to the extent of the payment."

Note: The policy defines You as the policyholder credit union.

The above language appears to directly contradict the language which is required by §10-10-108 (2)(d), C.R.S. and Regulation 4-9-2, § 10(A).

Based on the above information, it appears that the referenced forms are not in compliance with the requirements of §10-10-108 C.R.S. or Regulation 4-9-2, Section 10(A).

Recommendation No. 5:

Within thirty (30) days, the Company should provide documentation demonstrating why it should not be considered in violation of Section10-10-108 C.R.S. and Regulation 4-9-2. In the event the Company is unable to show such proof; the Company should provide evidence to the Division of Insurance that it has revised the form language to ensure compliance with Colorado insurance law.

CLAIMS
FINDINGS

Issue J1: Failing, in some cases, to accurately apply interest to benefits.

Section 10-7-112 C.R.S. Interest payable on benefits or proceeds, states in part:

> (1) Notwithstanding any other provision of law, each insurer admitted to transact the business of life insurance in this state shall pay interest on the death benefits using an interest rate that is not less than the rate of interest for proceeds left on deposit with the insurer and subject to withdrawal on demand for the period beginning at the date of death through thirty days following the date of receipt by the insurer of a complete request for payout including due proof of death. From that date until the date of settlement of the claim, the annual rate of interest shall be two percentage points above the federal discount rate, which rate shall be the rate of interest a commercial bank pays to the federal reserve bank of Kansas City using a government bond or other eligible paper as security and shall be rounded to the nearest full percent…

Paid Credit Life Claims

Population	Sample Size	Number of Exceptions	Percentage to Sample
132	50	8	16%

Fifty (50) of 132 paid credit life claims were reviewed. The review revealed exceptions in eight (8) files, representing 16% of the sample. The following provides an explanation of the exceptions noted.

In eight (8) instances, the Company failed to apply interest to death benefits.

Paid Credit Life Claims

Population	Sample Size	Number of Exceptions	Percentage to Sample
132	50	8	16%

Additionally, in eight (8) instances, the Company failed to apply interest up to the time that death benefits were actually paid, e.g. mailed. Since the Company generally provides benefits using electronic funds transfer (EFT), the failure to apply interest up to the mailing date involved only those files in which benefits were issued in the form of a voucher. The sample included eight (8) files in which benefits were issued with a voucher. When the Company generates/dates the voucher before 2:00 p.m., it is not mailed until the following day, thus not including one day of interest. When the voucher is generated after 2:00 p.m., it is dated with the following days date but not mailed until 2 days later, thus not including one day of interest. When the voucher is generated/dated before 2:00 p.m. on a Friday, the check is not mailed until Monday, thus not including two days interest (three days interest if a holiday).

Recommendation No. 6:

Within thirty (30) days, the Company should provide documentation demonstrating why it should not be considered in violation of Section 10-7-112, C.R.S. In the event the Company is unable to show such proof; it should provide evidence to the Division of Insurance that it has implemented procedures to ensure compliance with Colorado insurance law.

Issue J2: Failing, in some cases, to forward excess benefits to debtor or his/her estate.

Regulation 4-9-2 (amended November 2000) Credit Insurance, promulgated under the authority of §§ 10-1-109 and 10-10-114 C.R.S., requires in part:

Section 10. Claims

A. Responsibility of the Insurer

Section 10-10-108 (2)(d), C.R.S., requires that the policy or certificate "state that the benefits shall be paid to the creditor to reduce or extinguish the unpaid indebtedness, … that any such excess shall be payable to a beneficiary, other than the creditor, named by the debtor or to his estate." Proper payment of the entire claim is the contractual responsibility of the insurer and the simple act of forwarding a check for the entire claim to the creditor cannot relieve the insurer of this responsibility.

Paid Credit Life Claims

Population	Sample Size	Number of Exceptions	Percentage to Sample
132	50	40	80%

Fifty (50) of 132 paid credit life claims were reviewed. The review revealed exceptions in forty (40) files, representing 80% of the sample. The following provides an explanation of the exceptions noted.

As a matter of the Company's procedure when issuing a death benefit payment, the Company issues one total death benefit payment to the credit union. This benefit payment includes the amount necessary to satisfy the obligation to the credit union (generally) and the interest paid on the death benefit amount. The Company does not issue the "excess benefits" to the beneficiary or to the estate of the debtor.

The referenced regulation clearly states that any such excess amount, "…shall be payable to a beneficiary, other than the creditor, named by the debtor or to his estate."

Recommendation No. 7:

Within thirty (30) days, the Company should provide documentation demonstrating why it should not be considered in violation of Regulation 4-9-2. In the event the Company is unable to show such proof; it should provide evidence to the Division of Insurance that it has implemented procedures to ensure compliance with Colorado insurance law.

SUMMARY OF ISSUES AND RECOMMENDATIONS

ISSUES	Rec. No.	Page No.
OPERATIONS AND MANAGEMENT		
Issue A1: Failing to file a complete annual report of all policy forms in use.	1	15
Issue A2: Certifying and/or using non-compliant forms.	2	16
Issue A3: Failing to maintain records required for market conduct purposes.	3	19
UNDERWRITING – FORMS / POLICYHOLDER SERVICES		
Issue E1: Failing to use fraud warning language that is "substantially the same" as the fraud warning language required by Colorado insurance law.	4	22
Issue E2: Using certificate language that contradicts the language required to be included in the policy with regard to excess benefits.	5	24
CLAIMS		
Issue J1: Failing, in some cases, to accurately apply interest to benefits.	6	26
Issue J2: Failing, in some cases, to forward excess benefits to debtor or his/her estate.	7	27

Independent Market Conduct Examiners

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Participated in this examination and in the preparation of this report.